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## ***SECTION V - BUSINESS PRACTICES***

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The Department of the Navy (DoN) is becoming more efficient, working on ways to improve “how we do business” corporately rather than concentrating only on specific programs and products. Making the process efficient leads to more effective results and solutions that are affordable. Towards this end we have established measures and metrics to monitor critical functional areas that are vital to our success. This budget continues with innovative business approaches and exploitation of information technologies as we proceed with our transformation effort into the 21st Century. Initiatives include Navy Marine Corps Intranet (NMCI), modernization of our financial systems, enterprise resource planning, electronic business, strategic sourcing and risk management.

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### ***NAVY MARINE CORPS INTRANET***

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The Navy Marine Corps Intranet (NMCI) is a strategic IT capability the DoN will use to meet the challenges of executing our warfare doctrine. The current IT infrastructure is inefficient and provides poor interoperability and variable support across the enterprise. The DoN determined that a centralized networking system should be implemented to correct these deficiencies. This future “To Be” environment will eliminate redundancies and inefficiencies inherent in the current IT infrastructure by eliminating “stove-piped” IT management, procurement and support systems. A preliminary Business Case Analysis (BCA) demonstrated that the NMCI strategy, characterized by having a single private sector entity provide IT services under a long-term commercial seat management contract is, in fact, a sound business decision compared to the way IT requirements are currently provided. The analysis documented that the Department would realize direct and indirect cost savings and benefits associated with improved service. An updated Business Case Analysis and return on investment is being prepared based on actual results of the first increment sites. Preliminary analysis has shown that for less capability and performance, the DoN would pay more per seat in the current environment than the NMCI environment.

NMCI offers the opportunity for the DoN to leverage new technologies and industry innovation to better achieve our global Naval mission. This investment in the future will build the modern Navy-Marine Corps on the transformational power of networking. It will enable the connection to the National infrastructure, extend sharing and creation of knowledge and expertise worldwide, empower innovative work and training, and enhance the Quality of Life for every Marine, Sailor and civilian. NMCI will replace numerous shore-based networks and equip us with the access, interoperability, and security for our information and communications by providing voice, video and data services to all Navy and Marine Corps personnel. The global connectivity we will receive will enable our civilians, Sailors and Marines to increase their productivity and access all the resources that extend throughout the Naval Enterprise and our Nation. The NMCI approach adapts what is commonly practiced in the commercial sector to acquire IT services for the government. This approach uses a performance-based, enterprise-wide services contract that incorporates future strategic computing and communications capability and is managed much the same as any “utility.” Although this approach has been successfully utilized in industry, this is the

first time it has been adapted by government at an Enterprise level. The NMCI contract was awarded in October 2000 for \$6.9 billion and represents the largest service contract ever awarded by the Department of Defense. We have fully accommodated the implementation of the NMCI within existing budget totals and reflected the distributed costs and benefits throughout the operational programs of the Department.

NMCI is a good example of the reform in business practices the Department is seeking to achieve. It satisfies the needs for greater security, interoperability, and technological advancement, while taking maximum advantage of demonstrated commercial sector expertise and private sector investment. Because NMCI is a wholly new approach to acquiring needed capability direct economic comparisons are difficult. Several meaningful barometers illustrate the success of the initiative, such as: (1) initial business case analysis projects a reduction of 26% in the cost of operations over the five-year contract period; (2) NMCI has satisfied previously unfunded investment in the areas of Public Key Infrastructure (PKI), pier connectivity, and basic technology upgrades which are now part of the seat costs; (3) current estimates for the average seat cost across the DoN is approximately \$3,851 and the average NMCI seat cost will be approximately \$3,812, a savings of \$39 a seat for approximately 412,000 seats at steady state; vendor experience supporting the as-is infrastructure of approximately 57,859 seats indicates costs of approximately \$3,300 per seat, which does not include the cost of hardware, PKI and basic technology upgrades; and (4) the impact of displaced personnel has been very minimal to the Department – of the 231 affected employees, 157 have been placed in other positions within the Department, 29 have subsequently left the Department and 45 have accepted employment with the vendor. Approximately 200 military personnel will also benefit by receiving information technology training for the Department, a good outsourcing avenue without adverse impact.

Fiscal Year 2002, National Defense Authorizations Act, P.L. 107-107 requires that the DoN appoint a single program manager to oversee implementation of NMCI. The Assistant Secretary of Navy (ASN/RDA) has established an executive committee to review, oversee and manage the implementation of NMCI and is in the process of complying with the program management requirement in the Authorization Act.

The FY 2003 budget for the Navy Marine Corps Intranet supports the implementation of an additional 100,000 seats phased in quarterly as shown in the table below. Steady state seat service is expected to be reached in FY 2004. The Department currently has external approvals that it is obligated to adhere to and as a result the phasing schedule below may be revised to accommodate changes and funding will be realigned to support our current “as-is” legacy systems.

IMPLEMENTATION SCHEDULE (Cumulative Seats)									
NMCI Phasing	FY02 Q1	FY02 Q2	FY02 Q3	FY02 Q4	FY03 Q1	FY03 Q2	FY03 Q3	FY03 Q4	Steady State
TOTAL (DoN)	60,000	60,000	181,148	311,371	394,592	401,629	406,384	411,728	411,728

The budget supports total NMCI-specific costs for FY 2003 of \$1.4 billion. Seating costs are budgeted by account and line item in accordance with organization and program requirements. The funding table depicts the budget estimates by appropriation.

\$ in Millions	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
OMN	54.5	418.4	745.1
OMNR	4.1	25.9	116.0
OMMC	-	59.6	256.0
OMMCR	-	7.3	37.6
RDTEN	-	9.7	10.2
MILCON	-	6.0	9.9
FHOPS	-	0.6	1.3
BRAC	-	0.7	1.5
ERN	-	0.4	0.8
WCF	36.9	162.7	243.6
<b>TOTAL</b>	<b>95.5</b>	<b>691.3</b>	<b>1,422.0</b>

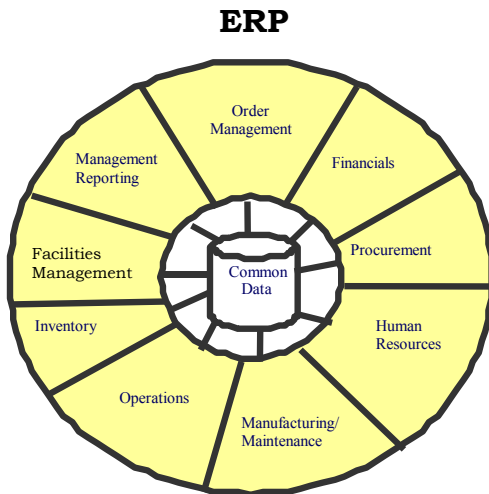
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## ***COMPLIANT FINANCIAL SYSTEMS***

The Department of the Navy (DoN) continues to strive to make our systems and processes compliant with the Federal Financial Management Requirements. The DoN has created thirteen teams to evaluate, renovate, and deploy compliant non-financial feeder systems and change processes while eliminating redundant systems. The DoN, in coordination with the Defense Financial Management Modernization Program Office (FMMPO), is in the process of developing a strategic financial management plan and strategic system architecture. From these strategic plans and architectures, we will proceed with developing, testing, and deploying compliant, interfacing systems across the DoN.

## ENTERPRISE RESOURCE PLANNING

We also have accommodated the financial requirements of our Enterprise Resource Planning (ERP) pilots. ERP is a business management system that integrates the business processes that optimize functions across the enterprise (e.g., supply chain, finance, procurement, manufacturing/ maintenance, human resources) and enables elimination of numerous legacy



systems and the streamlining of business processes. All essential data and information is entered into the system one time and remains accessible to everyone involved in the business process on a real time basis - providing consistent, complete, relevant, timely and reliable information for decision making. The Department has four pilots underway to explore ERP business processes: Program Management, Warfare Center Management, Aviation Supply and Maintenance, and Regional Maintenance. All four pilots are using Commercial Off the Shelf (COTS) software that has been approved and certified by the Joint Financial Management Improvement Program (JFMIP) as being compliant with the Chief Financial

Officers Act. Through process modernization, ERP will eliminate the need for interface with many non-compliant financial and feeder systems. The Military Sealift Command and Naval Security Group have already successfully implemented limited enterprise software – also COTS. We have budgeted the resources to support continuation of the pilots in FY 2003, and are positioned to capitalize on the success we expect them to achieve. All of these efforts are focused on improving the efficiency and performance of the support infrastructure and will enhance the Department's goal of reducing future operating costs.

## eBUSINESS

eBusiness is the interchange and processing of information via electronic techniques for accomplishing transactions based upon the application of commercial standards and practices. Further, an integral part of implementing eBusiness is the application of business process improvement or reengineering to streamline business processes prior to the incorporation of technologies facilitating the electronic exchange of business information. The budget supports establishment of a concentrated team to coordinate and exploit ebusiness (eB) opportunities. A new eB Operations Office was brought on-line in April 2001 to provide corporate solutions to the DoN's needs, to further its eB efforts and to improve transaction card management. Its charter specifies two main objectives: (1) be the eB innovation center, providing consultative services and increasing the eB idea flow by serving as a catalyst for the creation, realization and integration of eB efforts DoN-wide and, (2) centralize control of existing card-based and electronic transaction systems. The initial eight pilot projects in FY 2001 have had far reaching benefits, such as using satellite communication for supply chain and maintenance areas, including real time updates of key critical theater information. One project, Smart Web Move, can reduce scheduling time for household moves by 50 percent.

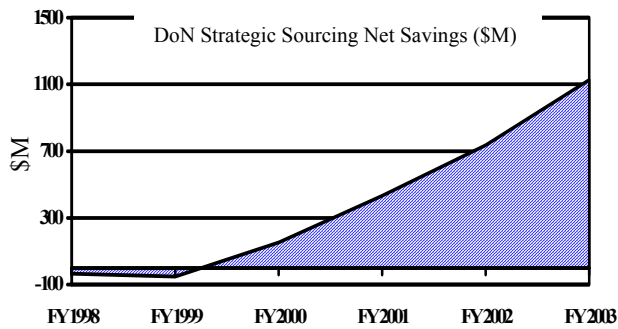
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## ***STRATEGIC SOURCING***

This budget fully supports the use of commercial business practices to improve operational effectiveness and efficiency and realize savings for modernization and recapitalization. The DoN has strived to implement this goal through Strategic Sourcing. As stated in the Office of Management and Budget Circular A-76 Supplemental Handbook, “the reinvention of government begins by focusing on core mission competencies and service requirements. Thus, the reinvention process must consider a wide range of options, including: the consolidation, restructuring or reengineering of activities... the adoption of better business management practices... and the termination of obsolete services or programs.” The DoN’s Strategic Sourcing Program embodies this approach by reviewing an entire functionality to determine how related functions should best be organized or eliminated to achieve the maximum benefit. While OMB Circular A-76 private/public competitions remain a primary Strategic Sourcing tool for commercial functions, DoN will consider elimination, consolidation, restructuring and re-engineering options before making a sourcing decision.

The DoN has undertaken an aggressive Strategic Sourcing program. The Department has refined its objectives and identified in excess of 100,000 civilian and military positions to be reviewed as part this reinvention process. Consequently, the budget includes significant savings from these planned initiatives, reflecting the commitment to institutionalize the process to realize reductions in infrastructure costs. Budget estimates reflect projected annual steady state net savings of \$1.6 billion beginning in FY 2005.

Chart 15 depicts DoN net savings estimates by fiscal year attributable to Strategic Sourcing initiatives.

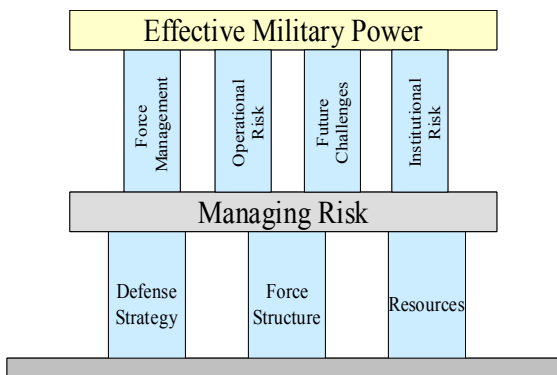
**Chart 15 - Strategic Sourcing**

Of the cost comparisons completed to date, 80 percent of the functions have remained in-house. Additionally, the cost comparisons have resulted in a 61 percent reduction to in-house and contractor personnel and a 46 percent reduction in operating costs. There are approximately 58,000 positions currently under review. The Department continues to monitor the execution of these studies and

current projections indicate the Department is on target to realize budgeted savings.

## ***MANAGING RISK - GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) METRICS***

Managing risk, especially in light of the attacks of 11 September 2001, is a central element of our defense strategy. The strategy entails assuring allies and friends, deterring threats of coercion and aggression and, when necessary, defeating adversaries. The September 2001 Quadrennial Defense Review (QDR) established a risk framework that will ensure the nation's military is properly prepared to carry out the strategy. Within the framework, there are four tenets of risk management: *force management*, *operational risk*, *future challenges*, and *institutional risk*. Measuring this risk in terms of meaningful metrics and then managing risk is the stated challenge. The Government Performance and Results Act (GPRA) (P.L. 103-62) of 1993 requires federal agencies (e.g. Department of Defense (DOD)) to submit a



comprehensive plan that identifies major goals and objectives. The assessment tools within GPRA will be one of the prime enablers for risk management associated with the tradeoffs in balancing defense strategy, force structure, and resources. Once these risk tenets have been fully assessed, taking action to mitigate potential vulnerabilities will further shape the application of our resources to force structure ensuring that our strategy is viable.

The information below provides page references to performance information contained in this document and in budget justification materials supporting the FY 2003 budget submission.

**Goal 1: Force management – the ability to recruit, retain, train, and equip sufficient numbers of quality personnel and sustain the readiness of the force while accomplishing operational tasks.**

- Navy Force Levels 2-3, 2-5, 2-6, 2-10, 2-12, 2-19, 2-21
- Marine Corps Force Levels 2-16, 2-22, 2-23
- Non-Deployed OPTEMPO (Ship) 2-4
- Reserve Navy and Marine Corps End Strength 2-21, 2-23
- Civilian Workforce 4-9, 4-10
- Enlisted Recruiting and Retention 2-18, 2-19, 2-22
- Quality of Recruits 2-17, 2-19, 2-22
- Quality of Life (QOL) Initiatives 2-17, 2-18
- Infrastructure A-19

The Navy and Marine Corps maintain a robust overseas presence and rotational posture in support of the defense strategy. Sailors and Marines are based forward and deploy as part of their inherent responsibilities. They join and re-enlist with the understanding that this is part and parcel of their commitment to serve. The Department has budgeted the resources to bring Career Sea Pay (CSP) levels up to date, fully funded critical bonus programs and increased top-6 manning, as well as improved quality of service for our members and their families, in a focused effort to reduce risk in this critical area. The DoN continues to be encouraged by achievement of recruiting goals and improved retention in the career force. Key readiness accounts are funded to ensure that our forces are ready to meet any tasking, and that supplemental appropriations would be required only for extraordinary demands on our Naval forces.

**Goal 2: Operational Risk – the ability to achieve military objectives in a near-term conflict or other contingency.**

- Naval Overseas Presence 2-2
- Forward Presence including personnel underway/deployed 2-2, 2-7
- Deployed OPTEMPO (Ship, Aircraft) 2-4, 2-7, 2-11
- Forward Stationed Forces 2-2, 2-4, 2-7
- Naval Force Readiness 2-2, 2-4, 2-5, 2-6, 2-7, 2-8, 2-9, 2-10, 2-12, 2-14
- Battle Force/Reserve/Strategic Sealift Ships 2-3, 2-5, 2-6, 3-4
- Aircraft Force Structure 2-10, 2-12, 2-14, 3-7
- Marine Corps Land Forces 2-16, 3-12
- Equipment Age (Aircraft, Ships) 2-11, 2-7
- Aircraft Flying Hour Program/Mission Readiness 2-10, 2-12
- Aircraft Squadron Material Readiness 2-14
- Aircraft Depot Maintenance 2-14
- Ship Steaming Days 2-4, 2-5
- Ship Depot Maintenance 2-7, 2-8
- Ship Deferred Maintenance 2-7
- Surge Sealift Capacity 2-6

This budget incorporates force structure changes that clearly reflect the wider range of operations and contingencies called for in the new defense strategy. While the additional topline enabled the DoN to retain the core of our warfighting structure, this budget does reflect decommissioning of some older ships and aircraft with high operations and support costs relative to the combat capability they provide. This consolidation has permitted the funding of two SSGN conversions, the employment of three frigates to dedicated Homeland Defense, establishment of a Navy Mobile Security Force flyaway team, and the establishment of a 4<sup>th</sup> Marine Expeditionary Brigade (MEB) constituted for the Anti-Terrorism/Force-Protection missions. This 4<sup>th</sup> MEB will consist of an enhanced Chemical Biological Incident Response Force (CBIRF), increased Fleet Anti-Terrorism Battalion to reinforce CBIRF and FAST, and Marine Security Guard Detachments assigned to Department of State security missions. For FY 2003, this represents an acceptable balance to address a wider threat and provide a more robust response capability.

**Goal 3: Future challenges – the ability to invest in new capabilities and develop new operational concepts needed to dissuade or defeat mid-to long-term military challenges.**

- Ship Programs – surface, submarine, aircraft carrier 3-2, 3-3, 3-4
- Aviation Programs – TACAIR, Fixed Wing, Helicopter, UAV 3-7
- USMC Programs – Ground Equipment 3-11
- Major Surface Weapons 3-3
- Major Aviation Weapons 3-8
- R&D Investment on the Future 3-13
- Science & Technology (R&D) Investment 3-13
- C4I Programs 3-10, 5-3

The ability to sustain the critical elements of the force structure and at the same time invest in new capabilities remains the most challenging element of risk management for the Department. The budget contains funding for only five new construction ships and 83 aircraft, both below the FY 2002 request and well below the sustaining rate required. The program does include funding for key investment and transformational initiatives such as JSF, MV-22, SSGN, DD(X), Carrier Replacement, increased procurement rates for precision guided munitions, priority aviation capability enhancements (E-2C RMP, AESA, ATFLIR, IDECM, MIDS-LVT, E-6 modernization), Cruiser conversions, netted sensors and weapons, and advanced communications (JTRS, MUOS, AEHF). The Department's ability to address future challenges is greatly enhanced within the existing topline, but the ability to capitalize again and transform the force will depend, as importantly, on the transformation of "tail to tooth."

**Goal 4: Institutional Risk – the ability to develop management practices and controls that use resources efficiently and promote the effective operation of the Defense establishment.**

- Navy Marine Corps Intranet 5-3
- Compliant Financial Systems 5-3



• Enterprise Resource Planning	5-4
• eBusiness	5-4
• Strategic Sourcing/A-76 Competitions	5-5
• Base Realignment and Closure	A-20
• Military Construction and Family Housing	4-2,4-3
• Real Property Maintenance	4-4

This budget represents the Department's commitment to improve the acquisition processes, make facility structure more efficient, and better manage resources. The Navy Marine Corps Intranet, Enterprise Resource Planning, and our E-business office are examples of innovative changes that will significantly improve connectivity, financial and business reporting, and management performance. As a Department, we have aggressively challenged our System Commands and other shore activities to find efficiencies, reduce contractor support and eliminate legacy information systems. Good management is more complex than downsizing, outsourcing, and changing for change's sake. The people of the DoN have proven their value and dedication to mission, before and especially since, the terrorist attacks on our Nation, and deserve the utmost respect and full support as they continue to serve.

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## ***OTHER PERFORMANCE METRICS***

Throughout the Highlights Book metrics have been addressed which are included in our performance plans and provide a measure of our overall effectiveness. Within the Department of the Navy, goals and objectives have been implemented through the Planning, Programming, and Budgeting System (PPBS). PPBS accommodates the goals of performance planning across the broad spectrum of DoN missions. Metrics are included for manpower, aviation/ship operations, depot maintenance and procurement programs. These metrics are also contained in budget justification materials supporting the FY 2003 budget submission.